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TAXPAYERS PROTECTION ALLIANCE

March 1, 2018

Postal Regulatory Commission
901 New York Avenue, NW Suite 200
Washington, D.C. 20268

RE: Docket RM2017-3; Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products

Chairman Taub, and Commissioners Acton, Langley, Hammond:

The Taxpayers Protection Alliance (TPA) would like to formally address the Commission's Order on the Findings and Determination of the 39 U.S.C. § 3622.

In TPA's initial comments to the Commission (dated March 20, 2017) we highlighted facets of the U.S. Postal Service's (USPS) operations in which the agency has demonstrated an inability to achieve key objectives described in the congressionally-designed Postal Accountability and Enhancement Act (PAEA) system.

These first critical objectives to "assure adequate revenues, including retained earnings, to maintain financial stability," and to "allocate the total institutional costs of the Postal Service appropriately between market dominant and competitive products," represent fundamental operational practices that must be fulfilled by USPS to justify the continuation of its legal monopoly. Congress confers such privileges with the understanding that USPS will make reasonably priced First-Class Mail available to the public, and do so in manner that doesn't not involve federal taxpayer dollars.

After observing $65.1 billion in losses and more than $121 billion in unfunded liabilities for the USPS since the enactment of PAEA, the implications for taxpayers must be understood and acknowledged. The 11 consecutive years of financial decay have accelerated the agency's path towards a taxpayer bailout, on top of the billions in implicit federal aid already received by the organization.

To shield federal lawmakers from the immediacy of this action, the Commission, through this docket exercise, has chosen to provide a relief package of its own to the Postal Service. Instead of serving as an objective regulatory body to guide USPS leadership towards substantive operational changes that reduce costs and increase efficiency, the Commission has solely focused of the revenue generating facets of the business.

By enabling USPS to raise rates on traditional letter mail products by 2 to 3 percent beyond the rate of inflation for each of the next 5 years, the Commission yields to exclusively cosmetic changes. Surely, gauging millions of daily mail consumers with higher rates reflects the most direct solution to deter continued losses, and potentially facilitate slight reductions in unfunded liabilities. According to USPS, "The U.S. Postal Service reported controllable income for the first quarter 2018 (October 1, 2017 - December 31, 2017) of $353 million, compared to controllable income of $522 million for the same period last year. This decrease was largely driven by volume declines in First-Class and Marketing Mail, higher normal cost of retiree health benefits expenses of $140 million and higher transportation expenses of $109 million…" This decrease in First Class Mail should prompt the USPS and Congress to pursue cost reduction measures that reflect the decline in revenues.
Raising prices, rather than cutting costs, is the wrong solution and further threatens the independent agency's fiscal stability.

Further, the determinations closely mirror many actions that Commission has facilitated to address this same financial stability quandary. Since the enactment of PAEA in 2006, the price of First-Class Mail letters has increased

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incrementally from 39 cents to 50 cents in 2018. As the Postal Service's fiscal standing continues to deteriorate, it is incumbent upon the Commission to outline the efficacy of these previous price increases.

As TPA has previously noted, the Commission must pursue separate and distinct reforms that have not been previously attempted. This entails addressing the unbalanced allocation of institutional costs among market dominant and competitive products. Postal law maintains the anachronistic policy that only 5.5 percent of the USPS' fixed costs must be allocated to package services in competitive arenas. According to the American Consumer Institute, "In terms of sharing these overheads, competitive services pay 8 cents on every dollar of revenue toward these fixed overheads, or $1.7 billion divided by $20.7 billion. On the other hand, market dominant services pay 58 cents on every dollar of revenue, or about $29 billion divided by $50 billion. To emphasize, market dominant services pay 58 cents per dollar of revenue toward fixed and institutional costs, while competitive services pay only 8 cents per dollar of revenue."

Given that packages account for an increasing share of USPS overall volume, the Commission must advocate for a new formula to ensure that each service line makes equivalent contributions to the cost burden that they create for the entire postal system.

While the Postal Service Annual Compliance Reports provide thorough accounts of the revenues, costs, and contributions of First-Class and Standard mail, the Commission should commit the USPS to providing the same information for competitive services. The Postal Service remains one single entity operating under federal law and thus should employ clear and consistent disclosures across any and all of its functions.

If the Commission agrees that the Postal Service is not comprised of two separate entities with separate governance (market dominant and competitive ventures), then it must seek to reform existing policies that conceal critical financial information from public view.

Until such transparency is realized and the applicable data is properly analyzed, the Commission cannot adequately determine if the remaining PAEA objectives have been achieved, and further, it does not have sufficient justification to propose any rate system changes.

For further discussion on these matters, Taxpayers Protection Alliance can be contacted using the information below.

Respectfully submitted,

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